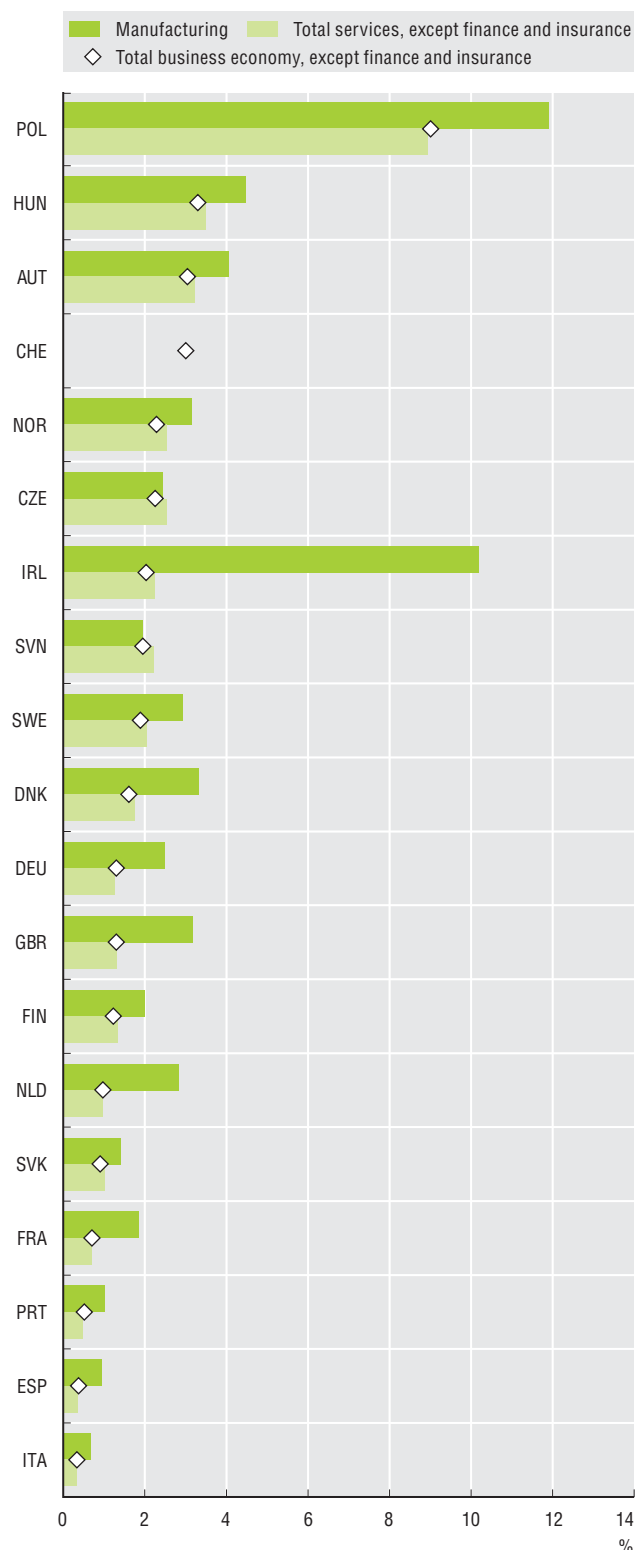


5. Foreign affiliates

Share of foreign affiliates in total enterprises, 2010

By manufacturing and services



Source: OECD, Activity of Multinational Enterprises Database, www.oecd.org/sti/ind/amne.htm; Eurostat, Inward FATS Database, June 2013. See chapter notes.

StatLink <http://dx.doi.org/10.1787/888932904298>

Foreign affiliates contribute to a host country's international competitiveness in several ways. They provide access to new markets and new technologies for domestic suppliers and buyers, generate knowledge spillovers for domestic firms and typically invest a higher share of revenues in R&D. They traditionally account for a larger share of host countries' employment than their numbers would suggest, owing to their larger average size. In 2010, foreign affiliates represented less than 5% of enterprises in most countries, but foreign-controlled employment varied between 10% and 40%. Their share in value added is even larger than in employment, partly because multinational enterprises are typically active in capital- and scale-intensive industries. In addition, foreign affiliates display on average higher labour productivity, even at the industry level. This may be due to reasons such as more capital-intensive production processes, greater efficiency and larger size.

Smaller countries, such as Ireland, the Czech Republic, the Slovak Republic and Hungary, have a stronger presence of foreign-owned firms. In France, the United States, Spain and Italy, foreign affiliates account for a significantly smaller share of total activity.

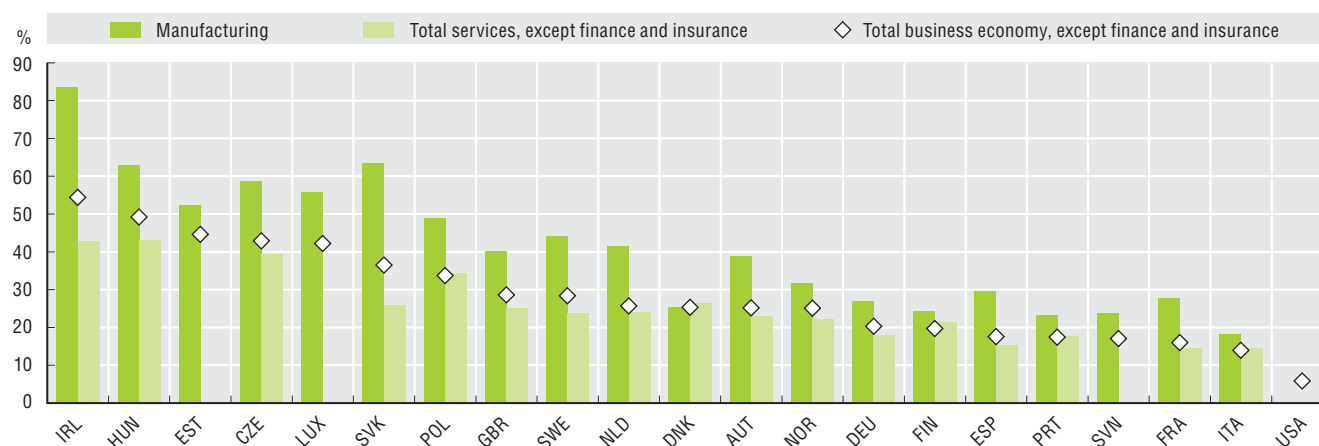
In most OECD countries, the importance of foreign affiliates is larger in manufacturing than in services. This is especially true for central European countries, in which many western European companies have relocated production over the past decade because of lower labour costs and the availability of a skilled workforce. Nevertheless, in absolute terms, foreign employment and value added are larger in services than in manufacturing in several OECD countries, owing to the importance of services in national economies but also to the growing internationalisation of services during the past decade.

Definitions

The term "foreign affiliate" is restricted to affiliates under foreign control. The notion of control implies the ability to appoint a majority of administrators empowered to direct an enterprise and determine its strategic choices. In most cases, this ability can be exercised by a single investor holding more than 50% of the shares with voting rights. The notion of control allows all of a company's activities to be attributed to the controlling investor. An investor is considered the investor of ultimate control if it is at the head of a chain of companies and controls directly or indirectly all the enterprises in the chain without itself being controlled by any other company or individual.

Share of national value added under control of foreign affiliates, 2010

By manufacturing and services

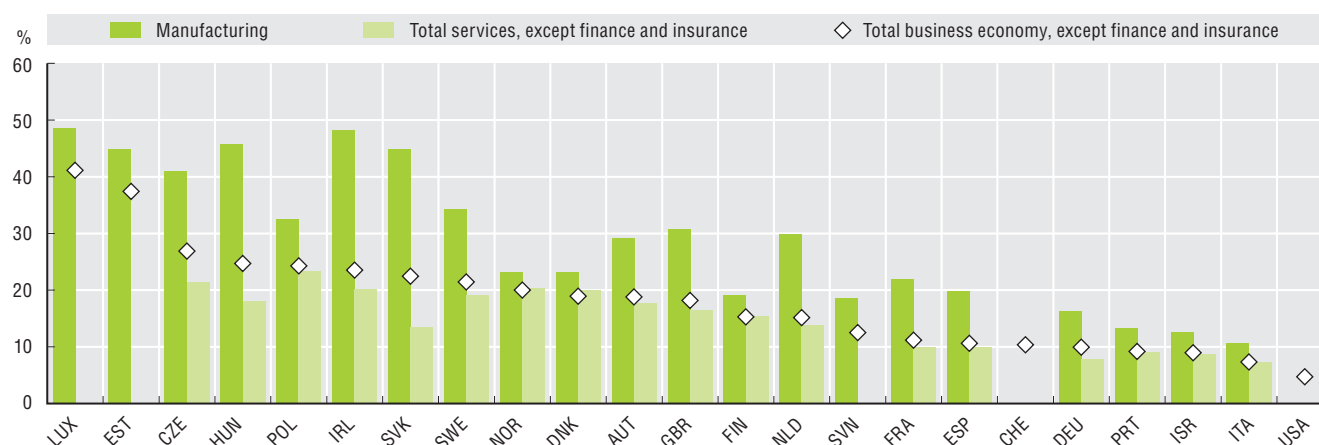


Source: OECD, Activity of Multinational Enterprises Database, www.oecd.org/sti/ind/amne.htm; Eurostat, Inward FATS Database, June 2013. See chapter notes.

StatLink <http://dx.doi.org/10.1787/888932904317>

Share of national employment under control of foreign affiliates, 2010

By manufacturing and services



Source: OECD, Activity of Multinational Enterprises Database, www.oecd.org/sti/ind/amne.htm; Eurostat, Inward FATS Database, June 2013. See chapter notes.

StatLink <http://dx.doi.org/10.1787/888932904336>

Measurability

The share of foreign-controlled affiliates in total enterprises is generally small. However, it may be overestimated if national surveys do not include micro or small firms.

The share of affiliates under foreign control in host country employment may reflect the importance of foreign direct investment in maintaining or creating employment in a country. However, this information does not allow for evaluating net job creation due to foreign investment in the host country.

Value added is the portion of an enterprise's output that originates within the enterprise itself, so it provides a better measure than turnover. However, the share of affiliates under foreign control in host country value added may be biased because production processes have increasingly become geographically fragmented.



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